

VZCZCXRO4606

RR RUEHCHI RUEHCN RUEHDT RUEHGH RUEHHM RUEHNH RUEHVC

DE RUEHGP #1010 2610954

ZNR UUUUU ZZH

R 170954Z SEP 08

FM AMEMBASSY SINGAPORE

TO RUEHC/SECSTATE WASHDC 5775

RUCNASE/ASEAN MEMBER COLLECTIVE

RUEHOO/CHINA POSTS COLLECTIVE

RUEATRS/DEPT OF TREASURY WASHDC

RUCPDOC/USDOC WASHDC

UNCLAS SINGAPORE 001010

SIPDIS

E.O. 12958: N/A

TAGS: EFIN ECON SN

SUBJECT: SINGAPORE FEELS AFTERSHOCKS OF WALL STREET CRISIS

¶1. Summary: Singapore is feeling repercussions from this week's financial crisis on Wall Street, which helped send the local exchange down nearly seven percent so far this week. Although local banks are well capitalized and face no serious threat from the crisis, individual investors in Lehman Brothers instruments are facing potential losses. News of insurance giant AIG's troubles prompted policyholders to flood AIG's local subsidiary to redeem policies, though the central bank reassured policyholders that the company holds sufficient funds to meet its policy requirements. Merrill Lynch's takeover by Bank of America has local Merrill employees anxious about their employment outlook, but may have given Singapore government-linked investor Temasek Holdings a gift, turning its huge, thus far money-losing recent investment in Merrill into a potential money maker nearly overnight. End Summary.

Market slides, but financial sector stable

¶2. The Wall Street crisis sent Singapore's Straits Times Index on another two-percent slide on September 17, adding up to a nearly seven percent decline for the first three trading days of the week. The Singapore dollar has stayed relatively stable at \$1.43 to the U.S. dollar.

¶3. Singapore banks said their exposure to Lehman Brothers was minimal. None of Singapore's local banks were listed among Lehman Brothers' top 30 unsecured creditors. Singapore's central bank, the Monetary Authority of Singapore (MAS), said in a statement on September 16 that the country's banks were well-capitalized, but that "MAS stands ready to inject additional liquidity if the situation warrants." Individual investors faced potential losses from Lehman's "minibonds", hundreds of millions of dollars worth of which Lehman issued in Singapore over the past two years. The minibonds were backed primarily by collateralized debt obligations (CDO), the value of which have declined by as much as 70 percent for some series.

Company struggles reflected in Singapore

¶4. Lehman Brothers: On September 16, the Singapore Exchange suspended Lehman Brothers from taking on new securities and derivatives positions. However, the Exchange confirmed yesterday that Lehman continued to meet its obligations as a clearing member in the securities and derivatives markets. MAS also directed Lehman yesterday to seek its approval before paying out any funds to third parties in order to ensure it met its financial requirements in Singapore. Lehman's 270 employees were still at work on Wednesday waiting for an announcement on their future from headquarters. Lehman's Singapore office was its center for commodities and foreign exchange trading in Asia.

¶5. AIG/AIA: Hundreds of policyholders of American International Assurance (AIA), AIG's Singapore subsidiary, have lined up at AIA's local office over the past two days to redeem policies. MAS cautioned policyholders against terminating policies too hastily and issued a statement yesterday that AIA was meeting its regulatory

requirements to maintain sufficient financial resources to meet its liabilities to policyholders. AIA maintains a separate insurance fund for policies issued in Singapore, segregated from its AIG parent. At end of 2007, AIA's fund was reportedly valued at USD 14.8 billion, invested primarily in fixed income securities. According to AIA, only three percent of the fund was invested in CDOs, none of which were rated sub-prime.

16. Merrill Lynch: Singapore's Temasek Holdings, the largest single investor in Merrill with a 14-percent stake, has kept silent on its investment and the upcoming swap of its Merrill stake for shares in Bank of America (BOA). BOA's offer of \$29 a share for Merrill Lynch stock appeared to give Temasek a brief opportunity to net a quick profit from its USD 5 billion investment in December 2007, though the slide in the value of BOA's stock after the Merrill deal may have closed that window for now. After a supplementary purchase in July, Temasek's average price paid per share was \$24, substantially higher than Merrill's pre-takeover share price of \$17. After BOA's share value dropped this week, Temasek remained technically in the red. But Temasek has characterized its large financial sector investments since the beginning of the crisis as long-term strategic moves, and local analysts predict Temasek will hold tough in order to maintain a stake in the U.S. financial sector. Merrill's 1600 local employees are awaiting news of possible staff cuts as the merger takes place. BOA has only approximately 200 employees in Singapore, meaning less job overlap and what Merrill staff hope will be fewer job cuts. Merrill had been planning to increase staff in Singapore, plans that are now in question.

HERBOLD